



**SCHOOL OF BUSINESS AND ECONOMICS
DEPARTMENT OF COMMERCE
END SEMESTER EXAM: AUGUST 2011**

CODE: 319X

UNIT: INSURANCE PRACTICE

TIME: 2 HOURS

INSTRUCTIONS

- 1. Question One is compulsory.**
- 2. Answer and other TWO questions**

1. (a) Raha Transporters is convinced that procuring more than one insurance policies for its fleet of haulage vehicles will disadvantage it because of the operation of the principles of contribution, indemnity, and subrogation by its potential insurers – Super Insurance Company. Mr. Mali (the MD of Raha) contends that he should only enter into negotiations with Super Insurance Company, if and only if the insurers are willing to drop their operation of these principles in his fleet policies.

(i) What are the likely consequences of Super Insurance Company consent to Mr. Mali's demands? **(10 marks)**

(ii) What would be your advice to Super Insurance Company? **(5marks)**

(b) You are the Risk Manager of Kamweli Enterprises. You have been approached by Karaba University Administration for advice on the risk management measures they should put in place to reduce the incidence of claims. Please advice. **(15 marks)**

2. Compulsory insurance policies are enshrined in the statues and thus criminalize rendering of certain services without such insurances as an offence. Giving examples to illustrate your answers, describe these compulsory insurances. **(15 Marks)**

3. "While insurance is useful to an economy, it is altogether wasteful as it results in misallocation of scarce societal resources. Argue for and against this statement. Illustrate your answer with examples. **(15 marks)**

4. Explain reasons why the government is usually reluctant to delegate the supervisory role of insurance industry to self-regulating bodies like the Association of Kenya Insurers (AKI) **(15 marks)**

5. Nakuru Blanket Ltd has just acquired Lima Enterprises (with tractor dealership and agro businesses countrywide). Amongst the assets of Lima include: 100 tractors in four established depots in Nakuru, Nyeri, Kitale and Narok, fertilizer seedlings, 200 strong staff, and a pension fund worth Ksh.200m and pension liability of Ksh.350m, fixed property (depots) worth over Ksh.568m and a dairy farm in Nyalgunga with over 120,000 head of cattle.

Task: Proceed to effect appropriate insurances for the new acquisition, suggesting two other forms of risk treatment (other than insurance) may be employed to manage the various risk exposures. **(15 marks)**